

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7270

Joint Petition of Verizon New England Inc., d/b/a)	
Verizon Vermont, certain affiliates thereof, and)	Hearing at
FairPoint Communications, Inc. for approval of an asset)	Montpelier, Vermont
transfer, acquisition of control by merger and associated)	March 30, 2008
transactions)	

Order entered: 3/31/2008

ORDER RE: CHANGED INTEREST RATES

On February 15, 2008, the Vermont Public Service Board ("Board") issued an Order conditionally approving a modified series of transactions under which FairPoint Communications, Inc. ("FairPoint") would acquire the landline telecommunications assets and business of Verizon New England Inc., d/b/a Verizon Vermont ("Verizon VT").¹ In that Order, and in our previous Order of December 21 in which we rejected FairPoint's original request, we explained that our principal concern related to FairPoint's financial strength and the risks this presented for ratepayers. Nonetheless, we concluded that with the improvements in the financial structure, the level of risk to FairPoint and to ratepayers had been reduced to acceptable levels, particularly in light of the other benefits of the transaction.

On March 28, 2008, the Board learned that the interest rate applicable to approximately \$540 million of the approximately \$2 billion in debt that FairPoint would incur was substantially higher than FairPoint had projected in the models that we evaluated during hearings. In particular, whereas FairPoint had previously anticipated that debt costs would be approximately 8 to 8.5 percent, the new rate would be 13.125% (for an effective annual rate of 13.5%). FairPoint disclosed this change in a Form 8-K which it filed on March 26, 2008, with the federal Securities and Exchange Commission ("SEC"). The Form 8-K was not filed in Vermont.

1. FairPoint modified its request on January 8, 2008, substantially reducing the amount of debt that FairPoint would need to incur to finance the transaction.

On March 30, 2008, we convened a technical hearing to consider the increase in interest cost and the effect of the increase on FairPoint's financial situation. FairPoint, VerizonVT, and the Vermont Department of Public Service ("Department") presented testimony related to the reasons for the changed interest rate, its financial effect, and recommendations on proceeding. The Department specifically recommended that we not modify the February 15, 2008, Order based upon the changed circumstances, but rather allow the transaction to proceed to closing. No party proposed that the Board take further action.

After deliberations, we ruled from the bench that we would not modify our previous Order and that we would permit the transaction to proceed as scheduled on March 31, 2008. Although the higher interest rate clearly will raise FairPoint's costs — FairPoint estimates that the effect upon the newly acquired territories will be approximately \$17 million annually — the evidence does not lead us to conclude that we should reject or further condition the proposed transaction.

Nonetheless, we are concerned about the fact that FairPoint provided the Board with no notice of the change in interest rates, leaving us to learn of it only from another state.² This failure to notify the Board was unacceptable. The change was significant and had a meaningful impact upon its finances and projected cash flow. According to the Department, the change will delay the time at which FairPoint is likely to achieve investment-grade rating status. Moreover, under certain scenarios, it may require FairPoint to reduce its dividend in 2008. In fact, FairPoint determined that it was sufficiently important that it filed a Form 8-K with the SEC. We expect FairPoint, or any other company regulated by the Board, to notify us when events that have the potential to significantly affect the company's finances occur. Such notice is particularly important where the Board has previously expressed concern about the company's financial situation. We expect that FairPoint will put in place systems to assure such notification in the future.

SO ORDERED.

2. FairPoint stated that it had notified the Department. As the Board and Department are separate entities, notice to the Department of significant events is not adequate.

Dated at Montpelier, Vermont, this 31st day of March, 2008.

<u>s/James Volz</u>)	
)	PUBLIC SERVICE
)	
<u>s/David C. Coen</u>)	BOARD
)	
)	OF VERMONT
<u>s/John D. Burke</u>)	

OFFICE OF THE CLERK

FILED: March 31, 2008

ATTEST: s/Susan M. Hudson
Clerk of the Board

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.